



COUNCIL REPORT

Date: April 24, 1998
To: City Council
Through: C. K. Luster, City Manager
From: Wayne Balmer, Community Development Manager *WB*
Subject: Discussion regarding the Disposition and Development Agreement with Interactive Leisure Resources Inc., for the redevelopment of Site 17 (Mesa Verde Sports Club & Resort).

Purpose and Recommendation

In order for the City to participate in a project of this type, the City Council, at its meeting on February 28, 1997, designated Site 17 as a Redevelopment Project Area and a Request for Proposals was issued. On October 9, 1997, the City Council approved the attached Memorandum of Understanding (MOU), labeled Exhibit "1", with Interactive Leisure Resources, Inc. A Disposition and Development Agreement (DDA) was prepared based on the MOU.

Staff recommends that the City Council discuss the DDA.

Background/Discussion

The following is a summary of the Mesa Verde Sports Club & Resort project which is located in the northeast quadrant of the original Town Center boundaries. The attached vicinity map, labeled Exhibit "2", shows the project boundaries, which encompass approximately 30 acres. As noted on the vicinity map, the project boundaries include the apartments/condominiums on Mesa Drive, and the office building on University Drive.

I. Project Components

A. Interior of the facility includes:

- 398 Hotel suites
- 57 Condominiums
- 53 Apartment Style Vacation Units (time share)
- Fitness Center
- Multi-purpose Facility
 - Two (2) Sheets of Ice
 - Capability for Conversion to a Basketball Court, Soccer, Trade Shows
 - Capability to house 7,000 seats
- Indoor Water Park
- Tennis/Racquetball/Basketball Courts
- Virtual Reality Games
- Indoor Field House (option could be a third (3rd) ice rink)
- Restaurants and Food Courts

B. Outdoor area includes:

- Passive Water Recreation Area
- Over 1293 off-street Ground Level Parking Spaces

C. Once completed, the project represents:

- Over a \$55 million investment in the downtown redevelopment area
- Five hundred (500) jobs (350 Full Time Equivalent and an estimated annual payroll of \$7.2 million)
- All of the above amenities will be housed in a twelve story, 900,000 sq. ft. building on a 30 acre site

D. The first floor of the resort, which will house the multi-purpose arena, water park, restaurant, retail uses, basketball/tennis/racquetball courts, and a field house, will be open to the public. The second and third floor will house a fitness facility with various amenities for members only. The fourth through ninth floors will house hotel units which will be available to the public, as well as time-share patrons. The tenth through twelfth floors will be time-share units.

II. Design Review

Attached are copies of the conceptual design plans, labeled Exhibit "3", which have not been approved by the Downtown Development Committee (DDC). It is anticipated that formal design review will be conducted by the DDC at its May 21, 1998 meeting.

Staff has circulated preliminary plans to various divisions within the City. At their meeting on March 19, 1998, the DDC discussed the preliminary plans. Staff also held a public open house with the surrounding property owners and tenants on April 2, 1998. A neighborhood

committee and various city divisions will be working with redevelopment staff to address the concerns brought up at these meetings. The following is a list of some of these concerns:

1. Off-street parking.
2. Circulation of traffic from patrons of this project,
3. Linkage of this project, Sheraton, and the Convention Center; and
4. Landscaping

A meeting with the Wilbur neighborhood was held on April 15, 1998 to discuss these issues.

III. Summary of Disposition and Development Agreement

Listed below are the major points in the Disposition and Development Agreement, which is in accordance with the MOU with Interactive Leisure Resources for the development of Site 17:

1. City agrees to use its best efforts to acquire all property within Site 17 not currently owned by the City after the recordation of this agreement. Acquisition costs include costs for relocation.
2. City agrees to demolish and remove buildings and improvements (including the electrical substation) from Site 17.
3. City agrees to ground lease Site 17 to ILR for a period of 99 years. ILR is responsible for payment of assessments to the Mesa Town Center Corporation. Rent is calculated at \$100,000/acre and paid over a 15 year period with no interest (approximately \$3 million) as follows:
 - a. No rent obligation during the initial five years.
 - b. Commencing with the fifth year, ILR shall pay rent to the City in an amount equal to 1/10 of the total rent due under Point 3. This amount shall be \$300,000 per year.
 - c. All rent by ILR shall be payable in full at the end of 15 years.
 - d. Once the City has received payment in full, ILR has the right to purchase the City's fee simple title to Site 17. If ILR chooses not to exercise its option to purchase the City's fee title interest, the City has the right to require ILR to accept the option.
4. Since ILR intends to obtain third-party financing for the project, the ground lease shall permit encumbrances to be recorded against ILR's leasehold interest in Site 17.
5. Prior to the execution of the ground lease, the City shall abandon all dedicated rights-of-way and public utility easements within Site 17 except for the sewer line easement within the existing Hibbert Street alignment and any other public utility easements which the City may continue to need.

6. City agrees to initiate a rezoning of Site 17 to a TCC zoning designation.
7. City agrees to participate in landscaping within the public rights-of-way adjacent to the project. City's share shall be improvements to and along Second Street.
8. City agrees to accept conveyance of fee simple title to the project improvements within Site 17 for the purpose of abating property taxes for a period of eight years after the issuance of a certificate of occupancy. City agrees to leaseback all project improvements according to the provisions of the ground lease.
9. For a period of eight years, the City agrees to charge rates for city utilities to the site equal to the municipal rate paid by the City for its properties. After the eight year period, ILR shall pay the equal to the applicable commercial rate.
10. City agrees to establish a Redevelopment Fund where a hotel surcharge shall be deposited. The hotel surcharge shall be paid by ILR to the City on the rental of all hotel rooms and the rental of all condominiums units for a period of fifteen (15) years. The surcharge shall be in the amount equal to the difference between the City's present bed tax of 2.5% and the ten percent (10%) charge proposed by ILR for hotel and condominium rentals within the project.
11. The Redevelopment Fund shall be used for the construction and capital improvements to Site 17 as mutually agreed by the City and ILR. In the event that ILR assigns its interest to the Redevelopment Fund for the purpose of securing third-party financing, the City shall recognize such assignment upon receipt of a fully executed agreement. This would occur if the Fund is used to fund the multi-purpose ice facility.
12. ILR agrees to construct the project according to approved development plans.
13. Within 90 days after the execution of the Agreement, ILR shall provide written evidence that it has secured a commitment for financing of the development and construction of the project. In addition, before the execution of the ground lease, ILR agrees to provide a completion bond sufficient in scope and amount to ensure completion of the project.
14. ILR agrees not to transfer or assign ownership of the project to any other party, without the City's prior written consent, for an 8 year period.
15. ILR must secure at its own cost any necessary building and construction permits. Such permits must be secured prior to the execution of the ground lease.
16. City agrees to perform a Phase I Environmental Site Assessment prior to the execution of the ground lease.
17. ILR at its own expense shall maintain liability insurance in the amount of \$5 million that shall insure ILR and the City against liability for injury or death of any person occurring in Site 17.

18. City agrees to waive the water and sewer development fees associated with the project (approximately \$210,000) and ILR agrees to pay remaining building permit and review fees (approximately \$405,000 under current fee schedule). Such fees shall be due and payable within 30 days of receiving the building permit fee.

IV. Summary Fiscal Impact Analysis

The following fiscal impact analysis was prepared with the assistance of Larry Woolf, Assistant Finance Director. The figures are based on data from the Developer which will be verified by an independent study. This study is not complete at this time, however preliminary comments from the consultant indicate that the Developer's figures are conservative.

Table 1
Summary of Average Annual Revenue to City (*)

Total Dollars Per Year (1-5) (No land payment and Municipal Rate for utilities)	\$916,715/yr
Total Dollars Per Year (6-8) (Includes Land Payment and Municipal Rate for utilities)	\$1,361,020/yr
Total Dollars Per Year (9-15) (Includes Land Payment and Commercial Rate for Utilities)	\$1,670,069/yr
Total Dollars Per Year After Year 15 (Includes Commercial Utility Rate Land Payment Completed)	\$1,350,000/yr

- * The revenue is based on the existing sales tax rate, utility payments, land payments, and revenue from the 2.5% transient occupancy tax. Since the City will own the land for 8 years, it is proposed that the rates for utilities for the project will be the same rate that the City pays. It is estimated that this will save ILR over \$150,000 a year, with the City still having a net revenue of \$100,000/yr from the electric utility. Figures for the other utilities have not been calculated, because we do not have estimates for proposed usage needs. After year eight it is estimated that the City will net \$259,000 in electric utility revenue.

Table 2
Summary Project Investment
Direct Cash Investment

	ILR	City
Property Acquisition		
a. Existing City Owned Land (*)	\$-0-	\$2,101,442
b. Land to be acquired (*)	\$3,000,000	\$992,750
Subtotal	\$3,000,000(**)	\$3,094,192
Relocation of the Electric Substation	\$-0-	\$250,000
Second St. Improvements	\$-0-	\$404,600
Waiver of Water and Sewer Fees	\$-0-	\$210,000
Bldg. etc. Review & Proposed Impact Fees	\$405,000	\$-0-
Construction Cost	\$55,000,000	\$-0-
Total	\$58,405,000	\$3,958,792
Percentage Participation	94%	6%

TOTAL PROJECT \$ 62,363,792 --- This project represents a ratio of (1) public dollar direct cash involvement for every \$15 private dollar. The City's estimated net cash investment to complete this project of \$ 3,958,792 will be repaid in 6.5 years based on the estimated bed tax, sales tax, and electric revenue to be generated, and the 15 year term to pay for the land, and noting that no revenue will be generated until fiscal year 2000/2001. However, the City will be repaid in 8 years utilizing present value numbers for the same amount of revenue (See Exhibit "4").

* Estimates are based on appraisals conducted by the Real Estate Division (Note: These are not definite figures because the City/Property Owners have not agreed upon a set price. If condemnation occurs, these numbers may increase.) In addition the figure includes total acquisition cost (ie: land acquisition, relocation, and demolition). The total amount does not include acquisition costs for properties in the block from Pasadena to Hibbert Street because these figures are not available.

** The City will need to budget \$3,992,750 toward the cost to complete the land acquisition, and ILR will pay for the land over a 15 year period. The first payment for the land will occur in year 6. The present value of \$3 million at 6% is \$1.5 million.

Table 3
Summary of Project Incentives
[Non-Cash City Incentives Provided to ILR] (*)

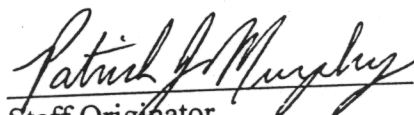
Estimated Property Tax Savings (8 yrs)	\$4,000,000
Cost savings to ILR based on the difference of the municipal rate versus the commercial rate. Electric Utility (savings over 8 years)	\$1,200,000
Total City Non-Cash Participation	\$5,200,000

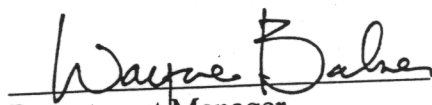
- * These costs are not direct costs to the City's budget, rather they are benefits to the developer. Thus, these figures do not represent cash contributions of the City. Furthermore even though ILR will save the \$1.2 million in electric costs, the City will still have a net revenue of \$800,000 in electric revenue over the 8 year period.

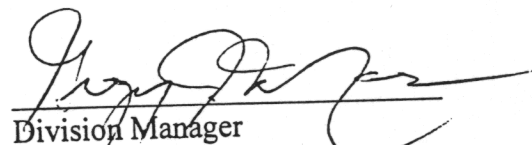
Concurrence

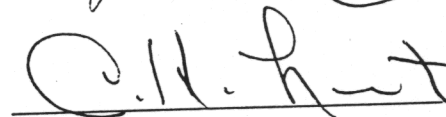
In conclusion, this expansion and retention project is in compliance with the City of Mesa's General Plan, Redevelopment Plan, Vision Plan, and the Connections Report. Rezoning will be requested in accordance with the Zoning Ordinance regulations. The City of Mesa Real Estate Services Department will be involved in the land acquisition for this project, and they have stated that they can work this into their schedule. Furthermore, this project will be reviewed by the various city departments who will make recommendations on the project (rezoning, parking densities, setbacks, building height, design review, etc.) Staff has also contacted the Electric Division regarding this project, and they have indicated that they can work this project into their work program.

Redevelopment staff and representatives from ILR have met with representatives from the Downtown Development Committee, Real Estate Division, Parks and Recreation Department, Convention & Visitors Bureau, Economic Development Board, Mesa Town Center Corporation, Chamber of Commerce, City Management and the Community Center. Preliminary discussions indicate that they are in favor of the project. The City Attorney has reviewed the DDA regarding its legal form and content.


 Staff Originator


 Department Manager


 Division Manager


 City Manager

Attachments:

- Exhibit No. 1, MOU between City and ILR
- Exhibit No. 2, Vicinity and Aerial Maps
- Exhibit No. 3, Concept Plans
- Exhibit No. 4, Present Value Table